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UNCLAS SECTION 01 OF 02 ISTANBUL 000190

SIPDIS

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E.O. 12958: N/A
TAGS: ECON EINV EFIN PGOV TU
SUBJECT: ISTANBUL EMPLOYERS' MUTED REACTION TO TURKEY'S MINIMUM WAGE JUMP

¶1. Sensitive but Unclassified. Not for internet distribution.

¶2. (SBU) Summary: The recent decision of the Turkish government to increase Turkey's minimum wage by 38 percent, while also raising pensions by 21 percent, has sparked strong criticism in financial circles, but only a muted reaction from organizations representing the "real" economy. Istanbul-based employers' associations note that the raise was imposed over their objections by government and labor representatives in the tripartite commission that is responsible for addressing the issue. They stress, however, that the primary impact will be felt in the Anatolian heartland, rather than Istanbul, given that most workers here already earn far above the minimum wage. Leading brokerages are less sanguine, worrying about the potential impact on Turkey's budget and about the potential for more "populist" measures in the run-up to March's local elections. End Summary.

¶3. (SBU) The decision by the Turkish government to raise the country's minimum wage by 38 percent at the beginning of the year (representing a net 34 percent increase to recipients), together with its subsequent decision to raise pensions by 21 percent, has brought only a muted reaction from Istanbul business circles. Meetings with a range of employers' associations, including those in the glass and food industries, showed little concern about the issue. Food Employers' association head Nazim Duzenli noted that employers had refused to sign on to the increase in the tripartite commission that addresses the issue, leaving it to be adopted over their objections by labor and government officials. He predicted little immediate impact on his members, however, given that his association has no employers with workers who earn the minimum wage. That is true, he suggested, of most businesses in Istanbul and the Marmara region. The measure's impact, he predicted, would be greater in Turkey's Anatolian heartland, among small to medium-sized employers (KOBIs) who do tend to have workers at minimum-wage levels. Teoman Yenigun, head of the glass employers' association, concurred with this argument, adding, however, that over time there would be a trickle-down effect on larger Istanbul-based businesses, in that many of their domestic inputs are sourced from KOBIs. That impact will not be felt for some time, Yeoman predicted. Yeoman's concerns with the measure focused more on its implications for public finances and for the encouragement it may give to Turkey's large "shadow economy" than for his industry's situation.

¶4. (SBU) Other major employers have been similarly sanguine. Sabanci Holding's head of finance, Faruk Bilen, told us recently that he saw no impact on the holding from the decision, in that it too employs no minimum wage labor. From a moral standpoint, he suggested that it is difficult to question the step, in that low-wage workers have borne the largest burden since the 2001 crisis, and the increase only allows them to partially recoup their losses. At a time when the government spends nearly 70 quadrillion lira a year on interest payments, he suggested, a meager 2.6 quadrillion for increased wages at the lower end of the scale is hard to challenge.

¶5. (SBU) Largely glossed over by employers now, but an unwritten subtext to their lack of militancy over the issue, is the fact that the actual increase came in much closer to their recommendations than to that desired by workers or even initially by the Prime Minister. The 38 percent increase represents a rise from 226 million TL to 303 million TL. While clearly out of line with inflation targets, a point Istanbul brokerages have emphasized, it falls far short of the 100 percent increase (to 454 million TL) originally

proposed by workers, or the 340 million TL (or 55 percent increase) advocated by the Prime Minister. In fact, news reports during the commission's deliberations noted that the level proposed by employers was 300 million TL, virtually identical to the final figure. Even TUSIAD Chairman Tuncay Ozilhan had publicly indicated that a rise of 20 percent would track with Turkey's 2004 inflation target, when coupled with an expected 7-8 percent increase in worker productivity. Employers had also desired a 25 percent discount in social security premiums on the increase, and in fact achieved a government agreement to assume part of the burden of the increased social security taxes that would result, so that the actual increase to employers is 20 percent, precisely in line with Ozilhan's comments. In fact, it is the fiscal impact of the government's agreement to assume part of the social security tax burden, rather than the minimum wage increase per se, that causes financial analysts here to worry.

¶6. (U) If large employers have opted to avoid publicly criticizing the increase, Istanbul financial analysts have been less recalcitrant. Leading brokerages such as HCIstanbul and Bender have criticized the increase's "populist" nature, and warned particularly about its implications for inflation, the shadow economy, and the government's budget. While State Minister Babacan has been quick to stress that the Prime Minister identified compensating spending cuts to absorb the cost of the minimum wage and pension increases, most analysts were not impressed, with HCIstanbul, for instance, arguing that it will be "practically impossible" to find savings measures to balance the cost, which it estimated at 4.1 quadrillion (2.9 billion USD or 1 percent of GNP). Hence its report on the issue concluded that the government would be forced to resort to tax measures or price hikes in the public sector, both of which would further encourage inflation.
SMITH